

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /099 W

----- 102030

R 240758Z NOV 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 7892

C O N F I D E N T I A L JAKARTA 15250

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: GOI POSITION ON OIL PRICE INCREASE

1. IN EFFORT TO PRESENT USG VIEWS ON POSSIBLE OIL PRICE DECISION TO KEY DECISION MAKERS, EMBASSY HAS SPOKEN WITH PERTAMINA PRESIDENT HARYONO, MINES MINISTER SADLI, MINISTER OF ECONOMIC PLANNING WIDJOJO, FINANCE MINISTER WARDHANA, AND B.S. ARIFIN, D.G. OF ECONOMIC AFFAIRS IN FOREIGN DEPT. AS RESULT THESE CONTACTS, OUR BEST ESTIMATE AT THIS POINT IS THAT INDONESIA WILL SUPPORT PRICE INCREASE OF UP TO TEN PERCENT IN ABSENCE MORE PERSUASIVE ARGUMENTATION AGAINST SUCH DECISION.

2. GOI POSITION SUPPORTING INCREASE APPEARS TO BE BASED ON: (1) HEDGE AGAINST INFLATION: THIS IS VIEW OF MINESMIN SADLI WHO BELIEVES SOME FORM OF INCREASE AROUND EIGHT PERCENT NECESSARY TO PROTECT OR MAINTAIN VALUE OF OIL AGAINST INFLATION; SADLI JUSTIFIES THIS INCREASE BY POINTING OUT IT DOES NOT ENTAIL ANY INCREASE IN "REAL" PRICE OF OIL.

(2) OFFSET DECLINING PRODUCTION THROUGH INCREASE IN PRICE - THIS POSITION WAS VOICED BY MINFIN WARDHANA WHO MAINTAINS SOME FORM OF INCREASE NECESSARY TO COMPENSATE FOR DECLINING INDONESIAN PRODUCTION AND DOUBT ABOUT
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FUTURE INVESTMENT IN EXPLORATION. WE HAVE NOT HEARD THIS

SOMEWHAT NOVEL VIEW EXPRESSED BY ANYONE ON OIL SIDE OF GOVERNMENT; (3) "ECONOMIC JUSTICE" DEMANDS FAIR PRICE. THIS REPRESENTS PARTICULAR VIEW OF MINISTER WIDJOJO AND IS BLENDED INTO GOI STANCE ON UNCTAD-RELATED INTEGRATED COMMODITY POLICY WHICH CALLS FOR "FAIR" PRICE ON COMMODITIES. THIS POSITION WAS ENUNCIATED PERHAPS MOST CLEARLY IN SPEECH DELIVERED BY PRESIDENT SUHARTO AT BALI OPEC CONFERENCE LAST MAY.

3. SOLE EXCEPTION TO ABOVE THINKING APPEARS TO BE PERTAMINA PRESIDENT HARYONO WHO IS CONCERNED THAT TOO STEEP AN INCREASE WILL JEOPARDIZE PERTAMINA'S ABILITY TO SELL INDONESIAN CRUDE IN WORLD MARKET. IN PAST, INDONESIA MAINTAINED PRAGMATIC STANCE EVEN THOUGH IT PAID LIP SERVICE TO OTHER OPEC MEMBERS BY SUPPORTING MAJORITY VIEW BUT THEN ADJUSTING PRICES TO MEET LOCAL CONDITIONS. HARYONO'S ROLE IN THIS, HOWEVER, APPEARS LIMITED AND IT IS UNCERTAIN HOW MUCH WEIGHT HIS VIEWS WILL BE GIVEN. ABSENCE FROM JAKARTA AND REDUCED INFLUENCE OF OIL AND GAS DIRECTOR WIJARSO IS ALSO FACTOR SINCE HE HAS BEEN EFFECTIVE ADVOCATE FOR REALISM IN PRICING OF INDONESIAN CRUDE.

4. INDONESIA, AS BEFORE, DOES NOT APPEAR TO BE STANDING OUT AGAINST PACK ON THIS ISSUE AND IT APPEARS THAT FINAL GOI DECISION NOT YET MADE. IT IS POSSIBLE GOI MIGHT BE OPEN TO FURTHER STRONG ARGUMENTS AGAINST PRICE HIKE IF THEY CAN BE SUPPLIED.

5. INVIEW OF ABOVE, DEPARTMENT MAY WISH TO FURNISH US WITH ADDITIONAL AMMUNITION WE CAN USE IN DISCUSSING FURTHER USG CASE AGAINST OPEC PRICE HIKE AT THIS TIME. IN ADDITION TO POSSIBLE COUNTER ARGUMENTS FOR POINTS CONTAINED PARA 3, WE BELIEVE INDONESIA MIGHT BE RECEPTIVE TO ANY ECONOMIC ARGUMENTS DEPARTMENT CAN PROVIDE ON IMPLICATIONS OF EIGHT - TEN PERCENT INCREASE IN TERMS OF SELLING OIL TO WEST COAST AND JAPAN. IN CASE OF LATTER, WE NOTE CHINA HAS RESUMED EXPORTS WHICH COULD EFFECT GOI'S COMPETITIVE POSITION. INDONESIANS SHOULD ALSO BE MADE AWARE OF WHAT PRICE RISE WILL DO TO ECONOMIES OF NEIGHBORING ASIAN
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COUNTRIES. ELABORATION ON MINESMIN SADLI'S AWARENESS OF "FRAGILITY" OF WORLD ECONOMIES MIGHT ALSO BE USEFUL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, POLICIES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART15250
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760438-0103
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761119/aaaaapst.tel
Line Count: 110
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by GarlanWA>; APPROVED <22 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI POSITION ON OIL PRICE INCREASE
TAGS: ENRG, ID, US, PERTAMINA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006